



RRB News

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Year 2005 Railroad Retirement and Unemployment Insurance Taxes

The amounts of compensation subject to railroad retirement tier I and tier II payroll taxes will increase in 2005. However, the tier I tax rate on employees and employers remains unchanged. Under the Railroad Retirement and Survivors' Improvement Act of 2001, tier II tax rates are now determined annually by an average account benefits ratio. Based on this ratio, the tier II tax rate on both employees and employers will decrease in 2005. Railroad unemployment insurance tax rates paid by employers will continue to include a 1.5 percent surcharge in 2005.

Tier I and Medicare Tax.--The railroad retirement tier I payroll tax rate on covered rail employees and employers for the year 2005 remains at 7.65 percent. The railroad retirement tier I tax rate is the same as the social security tax, and for withholding and reporting purposes is divided into 6.20 percent for retirement and 1.45 percent for Medicare hospital insurance. The maximum amount of an employee's earnings subject to the 6.20 percent rate will increase to \$90,000 in 2005 from \$87,900 in 2004, but there is no maximum on earnings subject to the 1.45 percent Medicare rate. The increase in the amount of earnings subject to railroad retirement and social security taxes is based on indexing to increases in average national wages.

Tier II Tax.--The railroad retirement tier II tax rate on employees will decrease by 0.5 percent, from 4.9 percent to 4.4 percent in 2005, and the rate on employers will also decrease by 0.5 percent, from 13.1 percent to 12.6 percent. The maximum amount of earnings subject to railroad retirement tier II taxes, however, will increase to \$66,900 in 2005 from \$65,100 in 2004. Tier II tax rates under the 2001 Railroad Retirement and Survivors' Improvement Act are based on an average account benefits ratio reflecting railroad retirement fund levels. Depending on this ratio, the tier II tax rate for employers can range between 8.2 percent and 22.1 percent, while the tier II rate for employees can be between 0 percent and 4.9 percent.

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Unemployment Insurance Tax.--Employers, but not employees, also pay railroad unemployment insurance taxes, which are experience-rated by employer. The basic tax rates range from a minimum of 0.65 percent to a maximum of 12 percent on monthly earnings up to \$1,150 in 2005, up from \$1,130 in 2004. However, the Railroad Unemployment Insurance Act also provides for a surcharge in the event the Railroad Unemployment Insurance Account balance falls below an indexed threshold amount, and such a surcharge of 1.5 percent applied in 2004. Since the accrual balance of the Railroad Unemployment Insurance Account was \$98.6 million on June 30, 2004, which was less than the indexed threshold of \$112.9 million, a surcharge of 1.5 percent will again be added to the basic tax rates in 2005, but will not increase the maximum 12 percent rate.

The unemployment insurance tax rates on railroad employers in 2005 therefore will range from 2.15 percent (the minimum basic rate of 0.65 percent plus the 1.5 percent surcharge) to a maximum of 12 percent on monthly compensation up to \$1,150.

The 1.5 percent surcharge will not apply to new employers in 2005, and new employers will initially pay a tax rate of 3.43 percent, which represents the average rate paid by all employers in the period 2001-2003.

For 77 percent of covered employers, the unemployment insurance rate assessed will be 2.15 percent in 2005.

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